

ANNUAL REPORT


AND FINANCIAL STATEMENTS
2014/2015

The background of the image is a vast landscape of rolling hills and mountains. The hills are covered in sparse, dry vegetation, and the mountains in the distance are silhouetted against a sky with soft, wispy clouds. The lighting suggests the time is either early morning or late afternoon, with a warm, golden glow. The text is overlaid on the left side of the image, in a clean, white, sans-serif font.

THERE IS ONLY ONE WAY TO GO.

**THE ROAD AHEAD MAY BE STEEP,
BUT IN EVERY CHALLENGE
THERE IS OPPORTUNITY.**

**AND THANKS TO THE STRONG
FOUNDATIONS WE HAVE BUILT
FOR TODAY, TOGETHER WE
WILL SUCCEED TOMORROW.**



| | |
|--------------------------|---|
| Chairman's report | 2 |
| Chief Executive's report | 3 |
| Directors' report | 4 |

CONTENTS

| | |
|-----------------------------------|----|
| Income statement | 10 |
| Statement of changes in equity | 11 |
| Balance sheet | 12 |
| Statement of cash flows | 13 |
| Statement of accounting policies | 14 |
| Notes to the financial statements | 24 |
| Auditors' report | 44 |
| Employee remuneration | 45 |
| Appointed actuary's review | 46 |
| Directory | 47 |

CHAIRMAN'S REPORT

**“IT WAS THE SECOND
BEST YEAR IN FMG'S
HISTORY, WITH AN
AFTER-TAX PROFIT
OF \$26.8M”**



This is the 110th year for the Mutual and it's been a very rewarding one. Continued growth of the business has seen us increase our share of the overall and rural insurance markets to 4% and 42% respectively.

In terms of profit, it was the second best year in FMG's history, with an after-tax profit of \$26.8m. On the back of this, reserves increased to \$224.2m. The pre-tax profit of \$31.4m was made up of \$7.9m from underwriting activities and \$23.4m of investment income.

At FMG we're in the business of helping you to understand and manage risk, and to help you get back on track when the unexpected happens. As a result, our profit can be volatile depending on the level of claims, especially large event-related claims. Pleasingly the large event claims were well covered by our reinsurance this last year, and therefore had limited impact on our overall financial result.

Looking inside the business, this year saw the completion of the transition to a new core policy and billing computer system. Implementing a project of around \$23m was large for us, but now that we're in a stable state, the benefits of the change are starting to show. The coming year will see a further capital spend of about \$12m to replace the claims system – again another necessary investment to support our medium-long term growth aspirations as a business.

As many readers will appreciate, while writing a strategy is relatively easy, successfully implementing it is quite another matter. At FMG I think we have managed to achieve this due to having a stable and committed team of well-trained professionals working hard on the Mutual's behalf.

As a service organisation we will never take your support for granted and each year we measure client satisfaction as well as our employees' engagement with the organisation. I'm pleased to say that these measures continue to move in a positive direction, with client satisfaction levels reaching new highs and FMG once again being rated as the second best large workplace in New Zealand.

Despite a considerably tougher competitor environment, we grew our client numbers by 6.6% last year. This only happens on the back of all our employees working together towards a common goal – something they can rightly be proud of as team, led ably by Chief Executive Chris Black and his capable senior management team.

At last year's AGM we signalled that we would bring forward for member approval some changes to the Constitution. During the year those changes were considered by the Board and we sought member feedback before putting forward the final document for approval. The changes were largely designed to recognise changes in legislation and modernise the way we operate as an organisation – the opportunity to use electronic communications being one example.

Also at last year's AGM you voted Cindy Mitchener and Danny Chan onto the Board as Special Directors. Both are making an excellent contribution on your behalf and I would like to thank all directors for their commitment to FMG and the guidance they provide.

A handwritten signature in dark ink, appearing to read 'G. Gent', written in a cursive style.

Greg Gent
Chairman
FMG

CHIEF EXECUTIVE'S REPORT

“FMG LODGED AND SETTLED MORE CLAIMS LAST YEAR THAN EVER BEFORE”



This year has been another excellent one for the Mutual with strong employee engagement, record levels of client satisfaction, good client growth and a sixth consecutive profit.

Making a profit and increasing reserves each year is essential to supporting our growth model because under the Insurance (Prudential Supervision) Act 2010, the Reserve Bank of New Zealand specifies certain minimum capital thresholds that insurance organisations must meet at all times. Put simply, the larger the business the more capital is required to support it.

On the back of this, we are very mindful of the need to keep overall premium increases to a minimum. This is in the spirit of sticking to the core purpose of the Mutual which is to consistently give rural New Zealand a better deal, avoiding wild fluctuations in premiums which are hard to plan for and tend to be a common feature of insurance markets.

As signalled last year, the Mutual has consolidated its insurance activities into one legal entity, resulting in lower administration and compliance costs. At the same time we've successfully managed the operational challenge of moving to a new core computer system without unduly impacting service levels – an outstanding achievement that involved a huge commitment from employees right across the organisation.

FMG lodged and settled more claims last year than ever before. This underpinned a strong underwriting result of \$7.9m, as did having fewer major storm events than expected, noting cyclone Ita in April 2014 was extremely challenging for those directly affected. In terms of the 2010 and 2011 Canterbury earthquakes, we have settled 96% of claims, leaving fewer than 150 still to settle.

Despite having a conservative approach to investing, the Mutual benefited from the particularly favourable investment markets last year, hence the \$23.4m of investment income. Given the uncertain outlook for investment markets globally however, this level of return is unlikely to be repeated this year.

As a Mutual, FMG has a higher sense of accountability in terms of giving-back to the rural community. In 2015, we partnered with the Mental Health Foundation to launch a rural wellbeing initiative called Farmstrong. This non-commercial 'give-back' programme based on farmer insights and sound research focuses on providing farmers, their families and rural communities with the tools and resources to help them 'live well and farm well'.

Thank you to all my colleagues who I have the privilege to work alongside each day – your unwavering commitment to the Mutual and the good things it stands for are quite humbling. Thank you also to our Board for creating a unique blend of corporate governance that encourages high aspiration and continues to generate solid outcomes for FMG and all of its stakeholders.

A handwritten signature in dark ink, appearing to read 'Chris Black', with a long, sweeping underline.

Chris Black
Chief Executive
FMG

DIRECTORS' REPORT

Five year comparisons

NZ Claims and catastrophes (\$000)

■ Catastrophe claims

| | | |
|------|--------|--------|
| 2011 | 69,716 | 10,081 |
| 2012 | 77,468 | 8,732 |
| 2013 | 72,144 | 0 |
| 2014 | 88,538 | 12,551 |
| 2015 | 95,776 | 7,558 |

NZ General insurance gross written premium (\$000)

| | |
|------|---------|
| 2011 | 131,387 |
| 2012 | 150,153 |
| 2013 | 167,571 |
| 2014 | 204,511 |
| 2015 | 209,279 |

Equity (\$000)

| | |
|------|---------|
| 2011 | 140,744 |
| 2012 | 148,957 |
| 2013 | 179,912 |
| 2014 | 197,428 |
| 2015 | 224,221 |

Investment income (\$000)

| | |
|------|--------|
| 2011 | 14,471 |
| 2012 | 9,252 |
| 2013 | 16,837 |
| 2014 | 16,273 |
| 2015 | 23,443 |

Net profit/(loss) after tax (\$000)

| | |
|------|--------|
| 2011 | 10,017 |
| 2012 | 8,511 |
| 2013 | 31,257 |
| 2014 | 17,516 |
| 2015 | 26,793 |

The Directors have pleasure in presenting Farmers' Mutual Group's 110th Annual Report and Financial Statements for the year ended 31 March 2015.

Principal Activities

The Group² is focused on the provision of competitive and effective farm risk solutions. Group activities include the delivery of insurable farm risk advice, general insurance, life and health insurance.

Farmers' Mutual Group Act 2007

Farmers' Mutual Group is governed by the Farmers' Mutual Group Act 2007 and the Farmers' Mutual Group Constitution.

Financial Results

The Group's financial results for the year reflect the following:

- Increase in gross written premium from continuing operations to \$209.3m from \$204.5m
- Increase in net investment income from continuing operations to \$23.4m from \$16.3m
- Increase in net claims incurred from continuing operations to \$103.3m from \$101.1m
- Increase in profit from continuing operations after tax to a \$26.8m profit from \$17.5m

| | 2015 | 2014 |
|---|---------|---------|
| | \$000 | \$000 |
| Profit from continuing operations before taxation | 31,436 | 19,772 |
| Taxation | (4,643) | (2,256) |
| Profit for the year | 26,793 | 17,516 |

¹ Reference to "Farmers' Mutual Group" or "FMG" or the "Parent" in this report and the Financial Statements means Farmers' Mutual Group.

² Reference to the "Group" in this report and the Financial Statements means the Parent and all subsidiaries.

DIRECTORS' REPORT

Membership

As at 31 March 2015, membership of the Parent stands at 51,396.

Directorate

In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Mr. Graeme Milne and Mrs. Marise James will retire by rotation and will stand for re-election at this year's Annual General Meeting.

Role of the Directors

The Board is responsible for the strategy, direction and control of the Group. This responsibility includes areas of stewardship such as the identification and control of the Group's business risks, the integrity of management information systems and reporting to policyholders and members.

While the Board acknowledges that it is responsible for the overall control framework of the Group, it recognises that no cost effective internal control system will preclude all errors and irregularities. The control system is based upon written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility, a programme of internal audit and the careful selection and training of qualified personnel.

The Board meets on a regular basis.

Legislative and Regulatory Compliance

Farmers' Mutual Group is a Qualifying Financial Entity within the meaning of the Financial Advisers Act 2008 and thus is directly supervised by the Financial Markets Authority.

The Group is also subject to the Insurance (Prudential Supervision) Act 2010 and thus comes under the direct supervision of the Reserve Bank of New Zealand. In February 2015 all the Group's insurance business was consolidated into FMG Insurance Limited.

In accordance with the requirements of the Insurance (Prudential Supervision) Act 2010 FMG Insurance Limited holds a full licence.

The Group makes use of its employees and external consultants to ensure compliance with relevant legislation and regulation.

This includes compliance with securities, environmental and human resource related legislation.

Remuneration of Directors

Directors' remuneration received, or due and receivable during the year amounted to \$0.373m (2014: \$0.290m). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

| | 2014-2015 | 2013-2014 |
|------------------|-----------|-----------|
| Name | \$000 | \$000 |
| G W Gent (Chair) | 81 | 70 |
| M W A Donald | 22 | 40 |
| M L James | 45 | 40 |
| T D Cleland | 45 | 40 |
| G R Milne | 45 | 40 |
| M J T Ahie | 45 | 40 |
| C L Mitchener | 45 | 10 |
| D Chan | 45 | 10 |
| Total | 373 | 290 |

DIRECTORS' REPORT

The Board as at 31 March 2015

The FMG Directors are Mr. Greg Gent (Chair), Mrs. Marise James, Mr. Graeme Milne, Mr. Tony Cleland, Mr. Michael Ahie, Ms. Cindy Mitchener and Mr. Danny Chan. Mr. Chan and Ms. Mitchener were appointed as Special Directors in November 2013 in accordance with the FMG Constitution. Mr. Murray Donald retired at the 2014 AGM after 15 years of service.

The following are the Directors' qualifications and expertise:



Greg Gent

Mr. Gent is the Chairman of FMG's Board of Directors. He has extensive experience in the rural sector and, along with being a dairy farmer, has held several directorships and chairmanships within the dairy industry, including over a decade as a Director of the Fonterra Co-operative. He is also the Chairman of Southern Cross.



Marise James

Mrs. James is a Chartered Accountant based in Taranaki specialising in the rural sector and in particular, business and tax planning. She and her husband are former winners of Sharemilker of the Year. Mrs. James, a recipient of the Nuffield Scholarship, is a former Landcorp Farming Ltd and Fonterra Director.



Graeme Milne

Mr. Milne has considerable experience in agribusiness as well as corporate governance, including his previous roles as CEO of Bay Milk Products, New Zealand Dairy Group and Bonlac. He is currently the Chairman of Synlait Milk Ltd and New Zealand Pharmaceuticals Limited and is a Director of Genesis Energy Limited, amongst others.

DIRECTORS' REPORT



Tony Cleland

Mr. Cleland is a Southland dairy farming entrepreneur and founder of FarmRight, an independent dairy farming management and consultancy company based in Lumsden. He is also a director of Field Power Northland.



Michael Ahie

Mr. Ahie is the CEO and a founding partner of AltusQ. He has broad international business and governance experience with multinational companies including Toyota New Zealand Ltd, the New Zealand Dairy Board and Wrightson Ltd. Mr. Ahie is also Chairman of Plant and Food Research, Pro Chancellor at Massey University and has farming interests in Taranaki.



Cindy Mitchener

Ms. Mitchener has an extensive career in media including senior roles with Radio NZ, Saatchi & Saatchi and TV3. This was followed by a three year stint as CEO of e-ventures. Ms. Mitchener is a lifestyle block owner and currently runs a number of her own digital, advertising and recruitment companies.



Danny Chan

Early in his career Mr. Chan worked in financial services with MLC, Westpac and Fidelity Investments, a leading global asset management company. He is now a large grower/exporter of flowers, and has a Nelson based seafood export operation and founded a private educational institution that now operates in five countries. He has extensive governance experience including six years on the board of AgResearch.

DIRECTORS' REPORT

The Board is subject to the FMG Board Charter which outlines the specific role and responsibilities of the Board. The Board is also subject to the Director Appointment & Reappointment Policy which articulates the process for the appointment of prospective Directors, as well as the evaluation of Directors due to retire by rotation who intend to stand for re-election.

Each Director must be assessed as being fit and proper in accordance with FMG's Fit & Proper Policy and reassessed at least every three years. All Directors are independent as they are free from any associations that could materially interfere with the exercise of independent judgement. The Directors are all subject to FMG's Code of Ethics.

The Board Committees as at 31 March 2015

The Audit & Risk Management Committee is currently comprised of Mrs. Marise James (Chair), Mr. Greg Gent, Mr. Graeme Milne, Mr. Tony Cleland and Mr Michael Ahie and is governed by its own Charter. The function of the Audit & Risk Management Committee is to assist the Board in carrying out its responsibilities under the Farmers' Mutual Group Act 2007, which incorporates by reference provisions of the Companies Act 1993 and the Financial Markets Conduct Act 2013. These responsibilities include ensuring compliance with legal and regulatory standards and the New Zealand equivalents to International Financial Reporting Standards, reviewing management's accounting practices, policies and controls relative to the Group, identification and management of key financial and regulatory risks, and reviewing and making appropriate inquiry into the audits of the Group by both internal and external auditors.

The Nomination, Remuneration & Governance Committee is currently comprised of Mr. Greg Gent (Chair), Mr. Michael Ahie, Ms. Cindy Mitchener, Mr. Tony Cleland and Mr. Danny Chan. The Committee, which is governed by its own Charter, is responsible for the nomination of new Directors, Chief Executive and senior management appointments, corporate governance and remuneration policies of the Group.

Attendance of meetings for 2014-2015 is detailed below:

| | Number of meetings | Number attended |
|--|--------------------|-----------------|
| FMG Board Meetings – total number 7 | | |
| G W Gent (Chair) | 7 | 7 |
| M W A Donald | 3 | 2 |
| M L James | 7 | 7 |
| T D Cleland | 7 | 7 |
| G R Milne | 7 | 6 |
| M J T Ahie | 7 | 7 |
| C L Mitchener | 7 | 7 |
| D Chan | 7 | 6 |

| | Number of meetings | Number attended |
|--|--------------------|-----------------|
| Audit Meetings – total number 3 | | |
| M L James (Chair) | 3 | 3 |
| G W Gent | 3 | 3 |
| G R Milne | 3 | 1 |
| M J T Ahie | 3 | 3 |
| T D Cleland | 2 | 2 |
| C L Mitchener | 1 | 1 |

| | Number of meetings | Number attended |
|--|--------------------|-----------------|
| Nomination, Remuneration and Governance Meetings – total number 2 | | |
| G W Gent (Chair) | 2 | 2 |
| M L James | 2 | 2 |
| T D Cleland | 2 | 2 |

DIRECTORS' REPORT

Directors of FMG's Subsidiaries as at 31 March 2015

The current FMG Insurance Limited Directors are Mr. Greg Gent, Mrs. Marise James, Mr. Tony Cleland, Mr. Graeme Milne, Mr. Michael Ahie, Mr. Danny Chan and Ms. Cindy Mitchener. The amount paid to each director is reflected in the remuneration of Directors of the Group.

Interest Registers of the Group as at 31 March 2015

- (a) There are no related party transactions recorded in the interest registers.
- (b) A majority of Directors are required to be members of FMG. Any associated insurance policies or transactions are administered according to normal business practice at arm's length.
- (c) Directors' remuneration is disclosed on page 5.
- (d) The Group has arranged policies of Directors' Liability Insurance which ensures that generally Directors will incur no monetary loss as a result of action undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of statutory regulations.

Auditors

In accordance with Section 27 of the Farmers Mutual Group Act 2007 and Section 196 of the Companies Act 1993, EY has been appointed as Auditors for the Group.

INCOME STATEMENT

for the year ended 31 March

| | | Group | Group |
|---|-------|------------------|------------------|
| | | 2015 | 2014 |
| | Notes | \$000 | \$000 |
| Continuing operations | | | |
| <i>General insurance activities</i> | | | |
| Gross written premium | | 209,279 | 204,511 |
| Movement in unearned premium | | (8,454) | (23,023) |
| Gross earned premium | 1 | 200,825 | 181,488 |
| Outwards reinsurance premium expenses | | (19,918) | (17,716) |
| Net premium revenue | | 180,907 | 163,772 |
| Claims expenses | 8 | (123,285) | (115,774) |
| Reinsurance and other recoveries revenue | 1, 8 | 19,951 | 14,685 |
| Net claims incurred | | (103,334) | (101,089) |
| Other income | 1 | 8,032 | 7,617 |
| Operating expenses | 2 | (77,686) | (66,768) |
| General insurance underwriting result | | 7,919 | 3,532 |
| Investment revenue | 1 | 23,443 | 16,273 |
| Profit from general insurance activities | | 31,362 | 19,805 |
| <i>Other</i> | | | |
| Share of earnings of associates and joint ventures | 13 | 74 | (33) |
| Profit before taxation | | 31,436 | 19,772 |
| Income tax credit/(expenses) | 3 | (4,643) | (2,256) |
| Profit from continuing operations | | 26,793 | 17,516 |
| Profit for the year attributable to members | | 26,793 | 17,516 |
| Total comprehensive income for the year, net of tax, attributable to members | | 26,793 | 17,516 |

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 43.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

| | Group | Group |
|--|----------------|----------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Retained earnings | | |
| Retained earnings at the beginning of the year | 197,428 | 179,912 |
| Total profit and comprehensive income | 26,793 | 17,516 |
| Retained earnings at the end of the year | 224,221 | 197,428 |
| Total equity at the end of the year | 224,221 | 197,428 |
| Attributable to: | | |
| Members | 224,221 | 197,428 |
| | 224,221 | 197,428 |

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 43.

BALANCE SHEET

as at 31 March

| | | Group 2015 | Group 2014 |
|-------------------------------|-------|----------------|----------------|
| | Notes | \$000 | \$000 |
| Assets | | | |
| Cash and cash equivalents | 4 | 28,407 | 21,271 |
| Trade and other receivables | 6 | 74,868 | 65,503 |
| Insurance recoveries | 7, 8 | 27,314 | 29,847 |
| Deferred acquisition costs | 9 | 3,954 | 3,954 |
| Investments under management | 5 | 256,651 | 233,817 |
| Current tax assets | | 120 | - |
| Property, plant and equipment | 10 | 5,970 | 5,718 |
| Biological assets | 12 | - | 2,136 |
| Intangible assets | 11 | 14,379 | 17,554 |
| Investments in joint ventures | 13 | 1,098 | 1,072 |
| Deferred tax assets | 14 | 6,356 | 8,075 |
| Total assets | | 419,117 | 388,947 |
| Liabilities | | | |
| Trade and other liabilities | 15 | 18,423 | 18,797 |
| Current tax liability | | - | 276 |
| Make good provisions | 17 | 60 | 200 |
| Underwriting provisions | 7 | 169,387 | 163,898 |
| Deferred tax liabilities | 14 | 7,026 | 8,348 |
| Total liabilities | | 194,896 | 191,519 |
| Net assets | | 224,221 | 197,428 |
| Equity | | | |
| Retained earnings | | 224,221 | 197,428 |
| Attributable to: | | | |
| Members | | 224,221 | 197,428 |
| Total equity | | 224,221 | 197,428 |

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 24 June 2015.



G W GENT
Chairman
24 June 2015



M L JAMES
Director
24 June 2015

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 43.

STATEMENT OF CASH FLOWS

for the year ended 31 March

| | | Group | Group |
|---|----------|---------------|----------------|
| | | 2015 | 2014 |
| | Notes | \$000 | \$000 |
| <i>Cash flows from operating activities</i> | | | |
| Premium and other receipts from clients | | 212,518 | 184,373 |
| Reinsurance recoveries | | 22,225 | 19,484 |
| Interest and fees received | | 108 | 166 |
| Other income | | 197 | 81 |
| Claims paid | | (127,168) | (111,116) |
| Reinsurance premium paid | | (21,087) | (16,704) |
| Cash paid to suppliers and employees | | (75,020) | (64,445) |
| Income tax paid | | (4,433) | (6,562) |
| Net cash flows from operating activities | 4 | 7,367 | 5,277 |
| <i>Cash flows from investing activities</i> | | | |
| Proceeds from advances/(repayments) of finance receivables | | 1 | 2,101 |
| Interest received from investments | | 787 | 536 |
| Dividends received | | 523 | 499 |
| Other income | | 49 | 54 |
| Investment dealings with fund managers | | 216 | 32 |
| Purchase of property, plant and equipment and intangible assets | | (1,807) | (7,941) |
| Net cash flows from investing activities | | (231) | (4,719) |
| Net increase/(decrease) in cash and cash equivalents | | 7,136 | 558 |
| Cash and cash equivalents at the beginning of the year | | 21,271 | 20,713 |
| Cash and cash equivalents at the end of the year | 4 | 28,407 | 21,271 |

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 43.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Reporting entity

The consolidated financial statements consist of Farmers' Mutual Group and its subsidiaries (the "Group").

Farmers' Mutual Group (the "Parent") is a mutual domiciled in New Zealand and registered under the Farmers' Mutual Act 2007. During the year the Parent was a licenced insurer under the Insurance (Prudential Supervision) Act 2010 and is a FMC reporting entity under the Financial Markets Conduct Act 2013.

This financial report includes financial statements for the consolidated entity (the "Group") which consists of the parent entity and all entities that the parent entity controlled during the year and at the balance date.

The Group is primarily involved in the delivery of insurable farm risk advice, general insurance, life and health insurance.

The Mutual's registered office is Level 5, Grant Thornton House, 215 Lambton Quay, Wellington.

Statement of compliance

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) as appropriate for profit-oriented entities.

The consolidated financial statements have been prepared on a historical cost basis with any exceptions noted in specific accounting policies below.

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand (\$000), unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous period.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

General insurance contracts

The general insurance operations of the Group comprise the management of the outstanding claims liability on previously issued insurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability (or the reinsurance thereof), within a given timeframe. Under accounting standards, such contracts are defined as general insurance contracts.

General insurance liabilities

The outstanding claims liability for general insurance contracts is measured as the best estimate of the present value of expected future payments for claims incurred at the balance date. A risk margin is added to allow for the inherent uncertainty in the best estimate and to increase the probability that the liability is adequately provided for.

The liability includes an allowance for inflation and is discounted to present value using a risk-free rate.

Claims incurred at the balance date comprise:

- claims which have been reported but not yet paid;
- claims incurred but not yet reported;
- claims incurred but not enough reported; and
- the anticipated direct and indirect costs of settling these claims.

Outstanding claims are determined by the appointed actuary in accordance with actuarial and prudential standards.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed to ascertain any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Any deficiency is taken to the income statement and written off against any deferred acquisition costs. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

Assets backing general insurance contract liabilities

These assets are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. The Group has identified its investments in Pinesmart Forestry Partnership, Fidelity Life Assurance Company Limited and funds under management as assets backing general insurance contract liabilities.

As general insurance contract liabilities are measured as described in these accounting policies, assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the income statement, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described in the statement of accounting policies.

Claims expenses

Claims expenses in respect of general insurance contracts are recognised in the income statement either as claims are incurred or as movements in outstanding claims owing.

Policy acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Outwards reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment, and netted off against reinsurance creditors.

Reinsurance recoveries

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the income statement.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

The specific recognition criteria described below must also be met before revenue is recognised.

Premium revenue

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract that matches the incidence of risk. The proportion of premiums not earned in the income statement at the reporting date is recognised in the balance sheet as a provision for unearned premiums.

Other fee income

Fees relating to specific transactions or events are recognised in the income statement when the service is provided to the customer.

Interest income

The effective interest method is used to measure the interest income recognised in the income statement. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period to provide a constant yield to maturity.

Dividend income

Revenue is recognised when the right to receive payment is established. Dividends are recorded as income at the date the shares become "ex-dividend".

Taxes

Current income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised for taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carry forward or unused tax credits, and any unused tax losses.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

GST

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet. Cash flows are included in the statement of cash flows on a net basis.

Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement of financial assets

Financial assets are initially recognised at fair value. For the purpose of subsequent measurement, the Group has categorised financial assets into the following categories:

- Financial assets at fair value through profit or loss

The Group does not have financial assets in the held-to-maturity and available-for-sale categories.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The Group has equity and debt securities that are designated upon initial recognition at fair value through profit or loss. These assets are carried in the balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derecognition

A financial asset is derecognised (i.e. removed from the Group's consolidated balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party through a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

Assets measured at fair value (like equity and debt securities and derivatives), where changes in value are reflected in the income statement, are not subject to impairment testing. Other assets such as loans and receivables, investments in subsidiaries, associates and joint ventures are subject to impairment testing.

Asset quality

Past due assets are loans and receivables in which a customer has failed to make payment contractually due within their key terms, and which are not impaired assets.

Initial recognition and measurement of financial liabilities

All of the Group's financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses are recognised in the income statement.

The Group has not designated any financial liability as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments to economically hedge its exposure to foreign exchange rate risks arising from operational, financing and investment activities (such as forward rate agreements, futures and options). No hedge accounting is undertaken by the Group.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Fair value measurement

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Valuation techniques include net-present-value techniques, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on-hand and short-term deposits with a maturity of three months or less.

Trade and other receivables

Trade and other receivables are initially recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is calculated using either the diminishing value method or the straight line method. Land is not depreciated. The estimated depreciation rates for the current and comparative periods, along with depreciation method, are as follows:

| | |
|--------------------------------|---|
| Buildings | 2% straight line |
| Leasehold improvements | 20% straight line or the term of the lease |
| Furniture and office equipment | 20% diminishing value |
| Computer equipment | 25% straight line |
| Motor vehicles | 20% straight line |
| Capital work in progress | Not depreciated until the asset is commissioned |

Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for the current and comparative periods are as follows:

| | |
|-----------------|-------------------------|
| Software | 20% - 30% straight line |
| Client database | 30% straight line |

Assets that have an indefinite useful life are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the income statement, being the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Biological assets

Biological assets are measured at their fair value less estimated point-of-sale costs, with any change therein recognised in profit or loss. The fair value of the Forests is determined by an independent valuer, based on the estimated future revenue (net of all harvesting costs) from the sale of logs, which is then discounted to the present day.

Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of the specific asset or assets and the arrangement conveys a right to use the asset.

The Group has not entered into any finance leases.

All leases are classified as operating leases and the leased assets are not recognised on the Group's balance sheet. Lease payments are recognised on a systematic basis in the income statement.

Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled. Payables are stated at cost as the impact of discounting is immaterial due to their short term nature.

Provisions

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

Employee entitlements

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date.

Statement of cash flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the income statement.

The following are definitions of the terms used in the statement of cash flows:

- cash is considered to be cash on hand and current accounts in banks, net of overdrafts;
- investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments;
- financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes debt not falling within the definition of cash; and
- operating activities include all transactions and other events that are not investing or financing activities.

Comparative figures

Comparative figures have been reclassified as required to ensure consistency with the current year presentation. The reclassifications have no impact on overall financial position and performance for the comparative years.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Changes in accounting policies and disclosures

There are no changes in accounting policies and disclosures since we published the 31 March 2014 statements.

New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not yet effective for the period ending 31 March 2015.

| Standard | Requirement | Effective for annual reporting periods beginning on or after: |
|--|--|---|
| NZ IAS 1 Disclosure Initiative | The amendments clarify existing NZ IAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. | 1 January 2016 |
| NZ IFRS 9 Financial Instruments (2009) | <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income. | 1 January 2017* |
| NZ IFRS 9 Financial Instruments (2010) | <p>NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> • the change attributable to changes in credit risk are presented in other comprehensive income (OCI) • the remaining change is presented in profit or loss. <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> | 1 January 2017* |
| NZ IFRS 9 Financial Instruments (2013) | <p>NZ IFRS 9 (2013) is a revised version of NZ IFRS 9. The revised standard incorporates three primary changes:</p> <ul style="list-style-type: none"> • new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; • entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time; and • the mandatory effective date moved to 1 January 2017*. | 1 January 2017* |

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

| Standard | Requirement | Effective for annual reporting periods beginning on or after: |
|---|---|---|
| NZ IFRS 9 (2014) Financial Instruments | <p>The final version of NZ IFRS 9 Financial Instruments, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 Financial Instruments: Disclosures.</p> | 1 January 2018 |
| NZ IFRS 15 Revenue from Contracts with Customers | <p>NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes:</p> <ul style="list-style-type: none"> (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services <p>The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. | 1 January 2017 |
| NZ IAS 16 and NZ IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 16 and NZ IAS 38) | <p>NZ IAS 16 and NZ IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p> | 1 January 2016 |

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

| Standard | Requirement | Effective for annual reporting periods beginning on or after: |
|--|--|---|
| NZ IAS 27 Equity Method in Separate Financial Statements (Amendments to NZ IAS 27) | The amendments require an entity preparing separate financial statements to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with NZ IFRS 9 Financial Instruments, or using the equity method. | 1 January 2016 |

* The International Accounting Standards Board announced a tentative decision to establish a new effective date for IFRS 9, being for periods beginning on or after 1 January 2018. Once the new effective date has been issued by the IASB, it is likely that the New Zealand Accounting Standards Board will amend the effective date for NZ IFRS 9 to align with IFRS 9.

Adopting the above Standards and Interpretations is not expected to have a material impact on the numbers presented in the Group financial statements, however a full assessment of the impact has not yet been performed by the Group.

Significant accounting judgements, estimates and assumptions

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates and assumptions are applied are noted below.

Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may not be apparent until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has considered the following:

- claim circumstances as reported;
- any information available from loss adjusters; and
- information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Further information is contained in Notes 7 and 8.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Biological assets

The fair value of the younger standing timber is based on the net present value of both Hillcrest Forest and Beehive Creek Forest based on a theoretical economic model and using a pre-tax discount rate of 9% net of harvesting costs. As at 31 March 2014 the forest assets are held as available for sale per IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

Further information is contained in Note 12.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences when it is probable that future taxable profits will be available to utilise those temporary differences.

Investment in Fidelity Life Limited

The shares in Fidelity Life Limited are not listed and are not traded in an active market. The shares are valued by an independent third party during the year using a valuation based on a price earnings multiple (using comparable companies) and the estimated future maintainable earnings of the company. FMG updates this valuation at balance date to ensure the carrying value is still appropriate.

Further information is contained in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

1. Revenue

| | Group 2015 \$000 | Group 2014 \$000 |
|--|------------------------|------------------------|
| General insurance revenue | | |
| Gross earned premiums | 200,825 | 181,488 |
| Reinsurance and other recoveries revenue | 19,951 | 14,685 |
| <i>Investment revenue:</i> | | |
| Dividends – other entities | 523 | 499 |
| Interest income – other entities | 786 | 515 |
| Movement in financial assets at fair value through profit and loss | 22,134 | 15,259 |
| Total investment revenue | 23,443 | 16,273 |
| Fee income and other revenue | 8,032 | 7,617 |
| Total revenue | 252,251 | 220,063 |

2. Other expenses

| | | |
|---|--------|--------|
| Operating expenses include: | | |
| Employee expenses | 43,094 | 37,642 |
| Operating lease rental expenses | 3,681 | 3,277 |
| Depreciation on property, plant and equipment | 2,272 | 1,991 |
| Amortisation on intangible assets | 4,331 | 2,719 |
| Loss on disposal of property, plant and equipment | 109 | 58 |
| Directors' fees | 373 | 290 |
| Auditors' remuneration – audit | 137 | 137 |
| Auditors' remuneration – solvency returns | 17 | 25 |
| Auditors' remuneration – taxation services | 60 | 39 |
| Auditors' remuneration – quality assurance | - | 65 |
| Auditors' remuneration - HR consulting | 44 | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

3. Income tax

| | Group 2015 \$000 | Group 2014 \$000 |
|--|------------------------|------------------------|
| a) Income tax expense from continuing operations | | |
| Current tax | 4,055 | 2,265 |
| Deferred tax expenses | 595 | 231 |
| (Over)/under provided in prior years | (2) | (240) |
| Utilised prior year's tax losses | (5) | - |
| Income tax expense/(credit) for the year from continuing operations | 4,643 | 2,256 |
| b) Amounts charged or credited directly to equity | | |
| Current tax expense/(income) | - | - |
| Deferred tax expense/(income) | - | - |
| Income tax benefit reported in equity | - | - |
| c) Analysis of taxation expense/(credit) – continuing and discontinued operations | | |
| Continuing operations | 4,643 | 2,256 |
| Income tax expense/(credit) for the year | 4,643 | 2,256 |
| d) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable | | |
| <i>Profit/(loss) before taxation</i> | | |
| Continuing operations | 31,436 | 19,772 |
| Total profit/(loss) before taxation | 31,436 | 19,772 |
| Prima facie income tax @ 28% | 8,802 | 5,536 |
| Tax effect of amounts which are non-deductible expenses/non-assessable revenue: | | |
| Non-assessable income and other items | (4,335) | (3,030) |
| Non-deductible expenses and other items | (325) | (149) |
| Imputation credits on dividends | (117) | (86) |
| Gain on asset disposal | 30 | - |
| Withholding tax | - | - |
| Foreign tax credit | - | (6) |
| Deferred tax expense/(credit) | 595 | 22 |
| (Over)/under provided in prior years | (2) | (31) |
| Utilised prior year's tax losses | (5) | - |
| Income tax expense/(credit) for the year | 4,643 | 2,256 |
| e) Imputation credit account | | |
| Balance at the beginning of the year | 61,450 | 55,430 |
| Net taxation paid/(refunded) | 4,055 | 5,953 |
| Imputation credit attached to dividends received and dividends paid | - | 67 |
| Balance at the end of the year | 65,505 | 61,450 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

4. Cash and cash equivalents

| | Group 2015 \$000 | Group 2014 \$000 |
|---|------------------------|------------------------|
| Cash at bank and in hand | 28,407 | 21,271 |
| Total cash and cash equivalents | 28,407 | 21,271 |
| a) Reconciliation to cash at the end of the year | | |
| The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows: | | |
| Balances as above | 28,407 | 21,271 |
| Balance per Statement of Cash Flows | 28,407 | 21,271 |
| b) Reconciliation of profit to net cash flows from operating activities | | |
| Profit for the year | 26,793 | 17,516 |
| Associated entity (profit)/loss | (74) | 33 |
| Profit for the year excluding associates and non-controlling interests | 26,719 | 17,549 |
| Adjustments for non-cash items | | |
| Amortisation | 4,331 | 2,719 |
| Depreciation | 2,272 | 1,991 |
| Movement in deferred tax | 397 | 22 |
| Movement in unearned premium | 9,372 | 28,582 |
| Movement in outstanding claims | (3,883) | (2,945) |
| Movement in bad debts provision | 56 | (133) |
| Movement in make good provision | (140) | 54 |
| Loss on sale of biological assets | 156 | - |
| Unrealised investment loss/(gain) | (23,051) | (16,029) |
| | (10,490) | 14,261 |
| Movements in other working capital items | | |
| Movement in accounts receivable | (5,829) | (22,636) |
| Movement in accounts payable | (1,821) | 896 |
| Movement in accrued leave/bonuses | 385 | 460 |
| Movement in taxation recoverable | (396) | (4,275) |
| | (7,661) | (25,555) |
| Items classified as investing activities | | |
| Net loss/(gain) on sale of property, plant and equipment | 109 | 57 |
| Dividends received | (523) | (499) |
| Interest received from investments | (787) | (536) |
| | (1,201) | (978) |
| Net cash flows from operating activities | 7,367 | 5,277 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

5. Other financial assets

| | Group 2015 \$000 | Group 2014 \$000 |
|---|------------------------|------------------------|
| Equity securities | | |
| Investments in unlisted New Zealand companies | 22,850 | 19,194 |
| Total equity securities | 22,850 | 19,194 |
| Unit trust investments | | |
| New Zealand equities | 9,489 | 11,073 |
| Offshore equities | 44,891 | 40,185 |
| Fixed interest investments – New Zealand | 144,194 | 131,891 |
| Fixed interest investments – Offshore | 35,227 | 31,474 |
| Total unit trust investments | 233,801 | 214,623 |
| Total other financial assets | 256,651 | 233,817 |

Determination of fair value hierarchy 2015 – Group

| | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total fair value \$000 |
|---|------------------|------------------|------------------|------------------------------|
| Financial assets designated at fair value through profit and loss: | | | | |
| Equity securities | - | - | 22,850 | 22,850 |
| Unit trust investments | - | 233,801 | - | 233,801 |
| Total financial assets | - | 233,801 | 22,850 | 256,651 |

Determination of fair value hierarchy 2014 – Group

| | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total fair value \$000 |
|---|------------------|------------------|------------------|------------------------------|
| Financial assets designated at fair value through profit and loss: | | | | |
| Equity securities | - | - | 19,194 | 19,194 |
| Unit trust investments | - | 214,623 | - | 214,623 |
| Total financial assets | - | 214,623 | 19,194 | 233,817 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

5. Other financial assets (continued)

Included in the level 1 category are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, are assets and liabilities for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3 financial assets are valued based on non market observable inputs meaning that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

During the year there were no transfers between categories.

Reconciliation of movements in Level 3 instruments measured at fair value

Financial assets designated at fair value through profit and loss 2015 – Group

| | As at 1 April 2014 | Total gain/(loss) in profit and loss | Total gain/(loss) in OCI | Purchases | Sales | Transfer from Level 1 and 2 | As at 31 March 2015 | Total gains/(losses) included in profit or loss for assets held at 31 March 2015 |
|-------------------|--------------------|--------------------------------------|--------------------------|-----------|-------|-----------------------------|---------------------|--|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Equity securities | 19,194 | 3,656 | - | - | - | - | 22,850 | 3,656 |
| | 19,194 | 3,656 | - | - | - | - | 22,850 | 3,656 |

Financial assets designated at fair value through profit and loss 2014 – Group

| | As at 1 April 2013 | Total gain/(loss) in profit and loss | Total gain/(loss) in OCI | Purchases | Sales | Transfer from Level 1 and 2 | As at 31 March 2014 | Total gains/(losses) included in profit or loss for assets held at 31 March 2014 |
|-------------------|--------------------|--------------------------------------|--------------------------|-----------|-------|-----------------------------|---------------------|--|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Equity securities | 14,840 | 4,354 | - | - | - | - | 19,194 | 4,354 |
| | 14,840 | 4,354 | - | - | - | - | 19,194 | 4,354 |

Sensitivity of Level 3 financial instruments to changes in key assumptions

| | Carrying value at 31 March 2015 | Effect of reasonably possible alternate assumptions (+/-) |
|-------------------|---------------------------------|---|
| | \$000 | \$000 |
| Equity securities | 22,850 | 273 |
| | 22,850 | 273 |

For equities, the Group adjusted the average price earnings ratio. The adjustment made was to increase and decrease the assumed price earnings ratio by one, which is considered by the Group to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

6. Trade and other receivables

| | Group | Group |
|-------------------------------------|---------|---------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Trade debtors | 71,039 | 62,366 |
| Reinsurance debtors | 2,455 | 1,678 |
| Other receivables | 2,742 | 2,589 |
| Allowance for collective impairment | (1,368) | (1,130) |
| | 74,868 | 65,503 |

There are no past due or impaired trade debtors or reinsurance debtors as at 31 March 2015. The allowance for collective impairment relates to other receivables where there are past due amounts.

7. Underwriting provisions and reinsurance and other recoveries

| | | |
|---|-----------------|-----------------|
| Underwriting provisions comprise: | | |
| <i>Liability for outstanding claims</i> | | |
| Expected future claim payments (undiscounted) | 66,366 | 70,886 |
| Discount to present value | (1,259) | (1,896) |
| | 65,107 | 68,990 |
| Provision for unearned premiums | 104,280 | 94,908 |
| Underwriting provisions | 169,387 | 163,898 |
| Current | 159,207 | 144,334 |
| Non-current | 10,180 | 19,564 |
| | 169,387 | 163,898 |
| Provision for reinsurance and other recoveries comprise: | | |
| Expected future recoveries (undiscounted) | (28,046) | (30,773) |
| Discount to present value | 732 | 926 |
| Net insurance recoveries | (27,314) | (29,847) |
| Current | (23,043) | (21,383) |
| Non-current | (4,271) | (8,464) |
| | (27,314) | (29,847) |

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

| | | 2015 | 2014 |
|--------------|----------------------------------|-----------------|-----------------|
| New Zealand: | Inflation rate | Implicit | Implicit |
| | Discount rate | 3.42% per annum | 3.19% per annum |
| | Weighted average term to closure | 0.5 years | 0.9 years |

Inflation rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on past experience observed in claims settlement patterns.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

8. General insurance contracts

a) Net general insurance claims incurred

| | 2015 | | | 2014 | | |
|---|--|---|-----------------|--|---|-----------------|
| | Risks borne in current year \$000 | Risks borne in prior years \$000 | Total \$000 | Risks borne in current year \$000 | Risks borne in prior years \$000 | Total \$000 |
| Group | | | | | | |
| Gross claims expense | | | | | | |
| Direct claims – undiscounted | 108,883 | 13,766 | 122,649 | 114,258 | 1,683 | 115,941 |
| Discount | (619) | 1,255 | 636 | (1,034) | 867 | (167) |
| Gross claims expenses | 108,264 | 15,021 | 123,285 | 113,224 | 2,550 | 115,774 |
| Reinsurance and other recoveries | | | | | | |
| Reinsurance and other recoveries revenue – undiscounted | (7,834) | (11,773) | (19,607) | (12,555) | (1,909) | (14,464) |
| Discount | 110 | (454) | (344) | 253 | (474) | (221) |
| Reinsurance and other recoveries | (7,724) | (12,227) | (19,951) | (12,302) | (2,383) | (14,685) |
| Net claims incurred | 100,540 | 2,794 | 103,334 | 100,922 | 167 | 101,089 |

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

b) Analysis of outstanding claims

| | Group | Group |
|--|---------------|--------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Gross central estimate of present value of future claims payment | 61,406 | 65,025 |
| Risk margin | 3,701 | 3,965 |
| Total outstanding claims liability | 65,107 | 68,990 |
| The expected settlement pattern of the outstanding claims liability is as follows: | | |
| Current | 54,927 | 49,426 |
| Non-current | 10,180 | 19,564 |
| Total outstanding claims liability | 65,107 | 68,990 |

The total liability relates to direct insurance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

8. General insurance contracts (continued)

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2015. The previous assessment of the Insurance Liabilities was performed at 31 March 2014.

The actuarial report was prepared by Margaret Cantwell, the appointed actuary, a fellow of the NZ Society of Actuaries and the Australian Institute of Actuaries. The Actuary is satisfied as to the accuracy of the data upon which the calculation of Insurance Liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

The determination of the Insurance Liabilities has been prepared in accordance with New Zealand International Financial Reporting Standard (NZ IFRS 4) and with the NZ Society of Actuaries Professional Standard No 4 governing technical liability valuations for general insurance business.

The key assumptions used in determining net outstanding claims liabilities are as follows:

| | 2015 | 2014 |
|--|----------|----------|
| Inflation rate | Implicit | Implicit |
| Discount rate | 3.42% | 3.19% |
| Claims handling expense ratio – outstanding claims liabilities | 4.7% | 4.2% |
| Claims handling expense ratio – premium liabilities | 5.9% | 5.2% |
| Risk margin – outstanding claims liabilities | 10.9% | 11.3% |
| Risk margin – premium liabilities | 13.4% | 16.6% |
| Weighted average expected term to settlement | 170 days | 328 days |

Inflation rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on past experience observed in claims settlement patterns.

Discount rate

The outstanding claims liability is discounted at the risk free rate. This rate is determined as the average rate for a portfolio of Government Stock that matches the liability cash flows by duration.

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administering the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Process for determining risk margin

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio, taking into account:

- past volatility in general insurance claims;
- potential uncertainties relating to the actuarial models and assumptions;
- the quality of the underlying data used in the models;
- the general insurance environment.

The estimate of uncertainty is generally greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification, in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

Weighted average expected term to settlement

Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

8. General insurance contracts (continued)

Reconciliation of movements in assets and liabilities arising from general insurance contracts

| | Group | Group |
|---|---------------|---------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Reinsurance and other recoveries receivable | | |
| Reinsurance and other recoveries receivable at the beginning of the year | 29,847 | 42,756 |
| Reinsurance and other recoveries incurred during the year | 19,951 | 14,685 |
| Reinsurance and other recoveries received during the year | (22,484) | (27,594) |
| Reinsurance and other recoveries receivable at the end of the year | 27,314 | 29,847 |
| Outstanding claims liability | | |
| Gross outstanding claims at the beginning of the year | 68,990 | 71,935 |
| Claims incurred during the year | 123,285 | 115,774 |
| Claims payments made during the year | (127,168) | (118,719) |
| Gross outstanding claims at the end of the year | 65,107 | 68,990 |
| Reconciliation of outstanding claims to liability for outstanding claims | | |
| Outstanding claims undiscounted | 66,366 | 70,886 |
| Discount | (1,259) | (1,896) |
| Total outstanding claims | 65,107 | 68,990 |

Sensitivity analysis

The impact of change in key variables on the outstanding claims liability is set out below. Each change has been calculated in isolation to other changes. The impact on net profit after tax is the same as the impact on equity.

| Variable | Movement | 2015 | | 2014 | |
|--|--------------------|---|---|---|---|
| | | Impact on profit after tax (net of reinsurance) | Impact on profit after tax (gross of reinsurance) | Impact on profit after tax (net of reinsurance) | Impact on profit after tax (gross of reinsurance) |
| | | \$000 | \$000 | \$000 | \$000 |
| Discount rate | Increase of 1% | 137 | 256 | 374 | 181 |
| | Decrease of 1% | (139) | (260) | (383) | (186) |
| Claims handling expense ratio | Increase of 1% | (422) | (422) | (449) | (449) |
| | Decrease of 1% | 422 | 422 | 449 | 448 |
| Risk margin | Increase of 1% | 244 | 244 | (253) | (253) |
| | Decrease of 1% | (244) | (244) | 253 | 253 |
| Weighted average expected term to settlement | Increase 0.5 years | 452 | 782 | 772 | 438 |
| | Decrease 0.5 years | (460) | (795) | (785) | (445) |

c) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in Notes 19 to 21.

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The risk management activities include prudent underwriting, pricing and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations.

The key policies in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquake, flood, storms and other catastrophes using models;
- the use of reinsurance to limit the Group's exposure;
- prudent investment management to match our liabilities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

8. General insurance contracts (continued)

(ii) Terms and conditions of insurance contracts that have a material effect on amount, timing and uncertainty of cash flows

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of reinsurance risk

There are no significant concentrations of insurance risk for reinsurance recoveries. Reinsurance contracts are entered into with a number of reinsurers, all with a minimum credit rating of A-. The internal policy is to limit the maximum exposure to a single reinsurer to 30%.

(iv) Development of claims

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

| | Incident year | | | | | | |
|---|---------------|---------|--------|--------|---------|---------|----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Ultimate claims cost estimate | | | | | | | |
| At end of accident year | 76,416 | 128,162 | 88,170 | 73,246 | 113,319 | 110,028 | |
| One year later | 73,325 | 154,841 | 89,220 | 74,810 | 112,769 | | |
| Two years later | 73,577 | 171,631 | 87,725 | 74,906 | | | |
| Three years later | 73,418 | 172,555 | 88,196 | | | | |
| Four years later | 73,323 | 186,428 | | | | | |
| Five years later | 73,103 | | | | | | |
| Current estimate of ultimate claims cost | 73,103 | 186,428 | 88,196 | 74,906 | 112,769 | 110,028 | |
| Cumulative payments | 73,079 | 162,672 | 86,642 | 74,703 | 109,313 | 79,266 | |
| Undiscounted central estimate | 24 | 23,756 | 1,554 | 203 | 3,456 | 30,762 | 59,755 |
| Discount to present value | - | (557) | (31) | (7) | (79) | (442) | (1,116) |
| Discounted central estimate | 24 | 23,199 | 1,523 | 196 | 3,377 | 30,320 | 58,639 |
| Prior years | | | | | | | 10 |
| Claims handling expense | | | | | | | 2,757 |
| Risk margin | | | | | | | 3,701 |
| Gross outstanding claims liabilities | | | | | | | 65,107 |
| Reinsurance recoveries on outstanding claims and other recoveries | | | | | | | (27,314) |
| Net outstanding claims liabilities | | | | | | | 37,793 |

d) Liability adequacy test

The liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

e) Insurer financial strength rating

The Group has a financial strength rating of A (Excellent) as accorded by the international rating agency A M Best Group on 26 February 2015.

f) Reinsurance programme

The Group has a programme of reinsurance contracts to protect its insurance operations from high severity losses and catastrophic events. No inward reinsurance is written by the Group.

Reinsurance is placed to cover losses in excess of the Group's agreed retentions for each class of business, using both automatic treaties and facultative (one-off) placements. Dependent upon the class of business either excess of loss or proportional reinsurance is used.

g) General insurance risk

Terms and conditions of insurance

Insurance and reinsurance contracts were written on terms and conditions generally prevailing in the market at the time they were accepted. Such contracts transferred risk by indemnifying the insured and reinsured against the occurrence of specified events.

Concentration of insurance risk

The exposure to concentrations of insurance risk is able to be mitigated with the purchase of reinsurance where management believes that the price/risk transfer is suitable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

9. Deferred acquisition costs

| | Group | Group |
|--------------------------------------|-------|-------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Balance at the beginning of the year | 3,954 | 3,954 |
| Balance at the end of the year | 3,954 | 3,954 |
| Current | 3,954 | 3,954 |

10. Property, plant and equipment

| 2015 Group | Land and buildings | Leasehold improvements | Furniture and fittings | Computer equipment | Motor vehicles | Total |
|---|--------------------|------------------------|------------------------|--------------------|----------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| <i>Cost</i> | | | | | | |
| Balance at the beginning of the year | 389 | 6,631 | 1,912 | 5,262 | 111 | 14,305 |
| Additions | - | 1,471 | 809 | 629 | 98 | 3,007 |
| Disposals | (316) | (1,343) | (1,016) | (379) | (61) | (3,115) |
| Balance at the end of the year | 73 | 6,759 | 1,705 | 5,512 | 148 | 14,197 |
| <i>Depreciation and impairment losses</i> | | | | | | |
| Balance at the beginning of the year | 32 | 3,876 | 1,551 | 3,097 | 31 | 8,587 |
| Depreciation for the year | - | 1,122 | 155 | 973 | 22 | 2,272 |
| Disposals | (17) | (1,260) | (937) | (380) | (38) | (2,632) |
| Balance at the end of the year | 15 | 3,738 | 769 | 3,690 | 15 | 8,227 |
| <i>Carrying amounts</i> | | | | | | |
| At the beginning of the year | 357 | 2,755 | 361 | 2,165 | 80 | 5,718 |
| At the end of the year | 58 | 3,021 | 936 | 1,822 | 133 | 5,970 |
| 2014 Group | Land and buildings | Leasehold improvements | Furniture and fittings | Computer equipment | Motor vehicles | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| <i>Cost</i> | | | | | | |
| Balance at the beginning of the year | 389 | 6,243 | 1,904 | 4,646 | 113 | 13,295 |
| Additions | - | 987 | 8 | 723 | 50 | 1,768 |
| Disposals | - | (599) | - | (107) | 52 | (758) |
| Balance at the end of the year | 389 | 6,631 | 1,912 | 5,262 | 111 | 14,305 |
| <i>Depreciation and impairment losses</i> | | | | | | |
| Balance at the beginning of the year | 32 | 3,525 | 1,463 | 2,245 | 35 | 7,300 |
| Depreciation for the year | - | 945 | 88 | 937 | 21 | 1,991 |
| Disposals | - | (594) | - | (85) | (25) | (704) |
| Balance at the end of the year | 32 | 3,876 | 1,551 | 3,097 | 31 | 8,587 |
| <i>Carrying amounts</i> | | | | | | |
| At the beginning of the year | 357 | 2,718 | 441 | 2,401 | 78 | 5,995 |
| At the end of the year | 357 | 2,755 | 361 | 2,165 | 80 | 5,718 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

11. Intangible assets

| 2015 Group | Computer software \$000 | Client base \$000 | Total \$000 |
|---|----------------------------|----------------------|----------------|
| <i>Cost</i> | | | |
| Balance at the beginning of the year | 28,813 | 700 | 29,513 |
| Acquisitions – internally developed | 1,012 | - | 1,012 |
| Acquisitions – other additions | 156 | - | 156 |
| Disposals | (1,401) | - | (1,401) |
| Balance at the end of the year | 28,580 | 700 | 29,280 |
| <i>Amortisation and impairment losses</i> | | | |
| Balance at the beginning of the year | 11,662 | 297 | 11,959 |
| Amortisation for the year | 4,121 | 210 | 4,331 |
| Disposals | (1,389) | - | (1,389) |
| Balance at the end of the year | 14,394 | 507 | 14,901 |
| <i>Carrying amounts</i> | | | |
| At the beginning of the year | 17,151 | 403 | 17,554 |
| At the end of the year | 14,186 | 193 | 14,379 |
| 2014 Group | | | |
| <i>Cost</i> | | | |
| Balance at the beginning of the year | 22,803 | 700 | 23,503 |
| Acquisitions – internally developed | 5,807 | - | 5,807 |
| Acquisitions – other additions | 361 | - | 361 |
| Disposals | (158) | - | (158) |
| Balance at the end of the year | 28,813 | 700 | 29,513 |
| <i>Amortisation and impairment losses</i> | | | |
| Balance at the beginning of the year | 9,293 | 105 | 9,398 |
| Amortisation for the year | 2,527 | 192 | 2,719 |
| Disposals | (158) | - | (158) |
| Balance at the end of the year | 11,662 | 297 | 11,959 |
| <i>Carrying amounts</i> | | | |
| At the beginning of the year | 13,510 | 595 | 14,105 |
| At the end of the year | 17,151 | 403 | 17,554 |

Amortisation of intangible assets is included in operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

12. Biological assets

| | Group 2015 \$000 | Group 2014 \$000 |
|---|------------------------|------------------------|
| Valuation at the beginning of the year | 2,486 | 2,512 |
| Change in fair value less estimated point-of-sale costs | - | (26) |
| Valuation at the end of the year | 2,486 | 2,486 |
| Obligation to restock | - | (350) |
| Sale | (2,486) | - |
| Carrying value at the end of the year | - | 2,136 |

Both the Hillcrest and Beehive Creek forest developments had previously been held for sale. During the year both forest developments were disposed of; the Beehive Creek Forest was sold for its carrying value, with a loss of \$156,000 incurred in relation to the sale of the Hillcrest Forest.

As a result of the sale the Pinesmart Forestry Partnership no longer has an obligation to restock the land at Hillcrest Forest with Pinus Radiata seedlings immediately following harvesting.

13. Investments in joint ventures

| | Group 2015 \$000 | Group 2014 \$000 |
|--|------------------------|------------------------|
| Farming House (Bay of Plenty) Partnership | | |
| Ownership interest held % | 50% | 50% |
| Carrying value of joint venture | 1,098 | 1,160 |
| Current assets | 20 | 13 |
| Non-current assets | 1,127 | 1,126 |
| Total assets | 1,147 | 1,139 |
| Current liabilities | 13 | 7 |
| Non-current liabilities | 36 | 60 |
| Total liabilities | 49 | 67 |
| Income | 5 | 4 |
| Expenses | 69 | (37) |
| Profit/Loss for the year | 74 | (33) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

14. Deferred tax

| 2015 Group | Opening balance at 1 April 2014 | Assets/ liabilities held for sale | Charged/ (credited) to profit and loss | Charged to equity | Acquisition/ disposal of subsidiary | Change in tax rate | Closing balance at 31 March 2015 |
|---|---------------------------------------|---|---|----------------------|---|-----------------------|---|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Movements in deferred tax assets | | | | | | | |
| Provisions and accruals | 8,110 | - | (1,714) | - | - | - | 6,396 |
| Unrealised losses | (126) | - | - | - | - | - | (126) |
| Tax losses | 93 | - | (5) | - | - | - | 88 |
| Other | (2) | - | - | - | - | - | (2) |
| Total deferred tax assets | 8,075 | - | (1,719) | - | - | - | 6,356 |
| Movement in deferred tax liabilities | | | | | | | |
| Deferred revenue liability | (8,089) | - | 1,118 | - | - | - | (6,971) |
| Fair value | (208) | - | 204 | - | - | - | (4) |
| Other | (51) | - | - | - | - | - | (51) |
| Total deferred tax liabilities | (8,348) | - | 1,322 | - | - | - | (7,026) |

| 2014 Group | Opening balance at 1 April 2013 | Assets/ liabilities held for sale | Charged/ (credited) to profit and loss | Charged to equity | Acquisition/ disposal of subsidiary | Change in tax rate | Closing balance at 31 March 2014 |
|---|---------------------------------------|---|---|----------------------|---|-----------------------|---|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Movements in deferred tax assets | | | | | | | |
| Provisions and accruals | 7,267 | - | 843 | - | - | - | 8,110 |
| Unrealised losses | (126) | - | - | - | - | - | (126) |
| Tax losses | 88 | 5 | - | - | - | - | 93 |
| Other | 3 | - | (5) | - | - | - | (2) |
| Total deferred tax assets | 7,232 | 5 | 838 | - | - | - | 8,075 |
| Movement in deferred tax liabilities | | | | | | | |
| Deferred revenue liability | (7,221) | - | (868) | - | - | - | (8,089) |
| Fair value | (211) | - | 3 | - | - | - | (208) |
| Other | (51) | - | - | - | - | - | (51) |
| Total deferred tax liabilities | (7,483) | - | (865) | - | - | - | (8,348) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

15. Trade and other liabilities

| | Group | Group |
|-----------------------|--------|--------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Trade creditors | 3,451 | 3,347 |
| Reinsurance creditors | 1,375 | 2,544 |
| Employee benefits | 4,921 | 4,536 |
| Other liabilities | 8,676 | 8,370 |
| | 18,423 | 18,797 |
| Current | 18,423 | 18,532 |
| Non-current | - | 265 |
| | 18,423 | 18,797 |

16. Allowances for impaired assets

| Group | Collectively impaired | Total |
|----------------------------|-----------------------|---------|
| | \$000 | \$000 |
| At 1 April 2013 | 1,716 | 1,716 |
| Utilised | (1,263) | (1,263) |
| Unused amounts reversed | (453) | (453) |
| Additional provision | 1,130 | 1,130 |
| As at 31 March 2014 | 1,130 | 1,130 |
| Utilised | (1,130) | (1,130) |
| Unused amounts reversed | - | - |
| Additional provision | 1,368 | 1,368 |
| As at 31 March 2015 | 1,368 | 1,368 |

There was no interest income on impaired financial assets accrued for the current year (2014: \$Nil).

17. Make good provision

| | Group | Group |
|---------------------------------------|-------|-------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Opening balance | 200 | 146 |
| Increase/(decrease) in provision | (140) | 54 |
| Balance at the end of the year | 60 | 200 |

In accordance with all FMG office lease agreements, the premises must be restored to their original condition at the end of their respective lease term.

A provision has been recognised in respect of FMG's obligation to return leased premises to their previous state. Because of the long term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated by a contractor used by FMG to manage lease contracts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

18. Related party transactions

a) Group Holdings

At 31 March 2015 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

| | 2015 | 2014 | |
|---|------|------|----------------------|
| | % | % | Principal Activities |
| Subsidiaries | | | |
| FMG Insurance Limited | 100 | 100 | General Insurance |
| Pinesmart Forests Partnership | 100 | 100 | Forestry |
| Joint Ventures | | | |
| Farming House (Bay of Plenty) Partnership | 50 | 50 | Property Investment |

Transactions with related parties have been entered into in the ordinary course of business and undertaken on normal commercial terms.

b) Related party transactions

The Group has related party receivables of \$Nil (2014: \$Nil).

c) Loans to key management personnel*

There have been no loans made to directors of the Group and other key management personnel of the Group, including their personally related parties.

d) Other transactions with key management personnel*

Key management hold various policies and accounts with FMG. These are operated in the normal course of business on normal customer terms.

e) Key management personnel compensation comprised*:

| | Group | Group |
|------------------------------|-------|-------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Short-term employee benefits | 3,029 | 2,970 |

*Key management personnel comprises of Directors and Executive Officers of the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

19. Credit risk

Insurance credit risk

Credit risk relating to insurance contracts relates primarily to:

- (a) Premium receivable from individual policyholders. Concentrations of credit risk are considered low due to the large number of customers comprising the customer base and their dispersion across New Zealand;
- (b) Reinsurance recoveries receivable, which are discussed further in Note 7.

Other financial assets

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

20. Market risk

Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies and resulting from these activities, exposures in foreign currency arise. The Group does not apply hedge accounting.

Unit price risk

Unit price risk is the risk that the fair value of investments in unit trusts will decrease as a result of changes in unit prices. The Group holds all of its investments in unit trusts at fair value through the profit and loss.

Unit price risk sensitivity analysis

The following table demonstrates the impact on profit and loss and equity of a reasonably possible change in unit prices prevailing at balance sheet date.

| | Group Impact on profit \$000 | Group Impact on equity \$000 |
|-----------------------------|---------------------------------------|---------------------------------------|
| 2015 | | |
| 10% increase in unit prices | 23,380 | 23,380 |
| 10% decrease in unit prices | (23,380) | (23,380) |
| 2014 | | |
| 10% increase in unit prices | 21,462 | 21,462 |
| 10% decrease in unit prices | (21,462) | (21,462) |

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. A subsidiary of the Group, FMG Insurance Limited, is exposed to interest rate risk by lending and borrowing at fixed interest rates for differing terms. The Group's exposure to interest rate risk is represented by the fair value analysis shown in this note. Loans and receivables are shown at amortised cost and as such are not exposed to fair value interest rate risk. Interest rates on loans and receivables are not floating and therefore a change in the interest rate will not present a cashflow risk.

Interest rate cash flows risk analysis

| | Group Impact on profit \$000 | Group Impact on equity \$000 |
|----------------------------------|---------------------------------------|---------------------------------------|
| 2015 | | |
| 0.25% increase in interest rates | 71 | 71 |
| 0.25% decrease in interest rates | (71) | (71) |
| 2014 | | |
| 0.25% increase in interest rates | 53 | 53 |
| 0.25% decrease in interest rates | (53) | (53) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

21. Liquidity risk

The contractual cashflows of financial assets and liabilities are as follows:

| 2015 Group | Weighted average interest rate | 0-6 months | 6-12 months | 12-24 months | 24-60 months |
|-------------------------------------|--------------------------------|----------------|-------------|--------------|--------------|
| | % | \$000 | \$000 | \$000 | \$000 |
| Bank deposits | 3.36% | 28,407 | - | - | - |
| Trade and other current receivables | | 74,868 | - | - | - |
| Total financial assets | | 103,275 | - | - | - |
| <i>Undrawn lending facilities</i> | | - | | | |
| Trade and other current liabilities | | 18,423 | - | - | - |
| Total financial liabilities | | 18,423 | - | - | - |
| Net financial position | | 84,852 | - | - | - |

| 2014 Group | | | | | |
|-------------------------------------|-------|---------------|------------|----------|----------|
| Bank deposits | 2.51% | 21,271 | - | - | - |
| Trade and other current receivables | | 65,281 | 222 | - | - |
| Total financial assets | | 86,552 | 222 | - | - |
| <i>Undrawn lending facilities</i> | | - | | | |
| Trade and other current liabilities | | 18,797 | - | - | - |
| Total financial liabilities | | 18,797 | - | - | - |
| Net financial position | | 67,755 | 222 | - | - |

Capital management

The Group's capital includes retained earnings.

The Group's policy is to maintain a strong equity base so as to maintain member, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on members' return is also recognised and the Parent recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

During the year all insurance business in Farmers' Mutual Group and related assets and liabilities were transferred to FMG Insurance Limited. As a result FMG Insurance Limited became the only insurance entity within the Group. On 23 March 2015 Farmers' Mutual Group's insurance licence issued under Section 30(1) of the Insurance (Prudential Supervision) Act 2010 was cancelled reflecting the transfer of business to FMG Insurance Limited.

FMG Insurance Limited (a subsidiary of Farmers' Mutual Group) as an insurer licensed under the Insurance (Prudential Supervision) Act 2010, is required to maintain a minimum solvency ratio of 1. As at 31 March 2015, FMG Insurance Limited had a solvency ratio of 2.28 (\$97.613m).

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and undrawn funding facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The Group also regularly reviews insurance premiums to ensure they are set at an appropriate level to cover insurance claims.

There have been no material changes in the Group's management of capital during the period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

22. Financial instruments

| 2015 Group | Designated at FVTPL | Available for sale | Loans and receivables | Held-to- maturity | Total carrying amount | Fair value |
|-------------------------------------|------------------------|-----------------------|--------------------------|----------------------|-----------------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Bank deposits | - | - | 28,407 | - | 28,407 | 28,407 |
| Investments | 256,651 | - | - | - | 256,651 | 256,651 |
| Trade and other current receivables | - | - | 74,868 | - | 74,868 | 74,868 |
| Total assets | 256,651 | - | 103,275 | - | 359,926 | 359,926 |

| | Designated at FVTPL | Other financial liabilities at amortised cost | Total carrying amount | Fair value |
|-------------------------------------|------------------------|---|-----------------------------|---------------|
| | \$000 | \$000 | \$000 | \$000 |
| Trade and other current liabilities | - | 18,423 | 18,423 | 18,423 |
| Total liabilities | - | 18,423 | 18,423 | 18,423 |

| 2014 Group | Designated at FVTPL | Available for sale | Loans and receivables | Held-to- maturity | Total carrying amount | Fair value |
|-------------------------------------|------------------------|-----------------------|--------------------------|----------------------|--------------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Bank deposits | - | - | 21,271 | - | 21,271 | 21,271 |
| Investments | 233,817 | - | - | - | 233,817 | 233,817 |
| Trade and other current receivables | - | - | 65,503 | - | 65,503 | 65,503 |
| Total assets | 233,817 | - | 86,774 | - | 320,591 | 320,591 |

| | Designated at FVTPL | Other financial liabilities at amortised cost | Total carrying amount | Fair value |
|-------------------------------------|------------------------|---|--------------------------|---------------|
| | \$000 | \$000 | \$000 | \$000 |
| Trade and other current liabilities | - | 18,797 | 18,797 | 18,797 |
| Total liabilities | - | 18,797 | 18,797 | 18,797 |

For financial instruments not presented in the Balance Sheet at their fair value, fair value is estimated using the following methods:

- For loans and receivables and borrowings where the applicable interest rate is fixed, fair value is estimated using discounted cash flow models based on the repayment profile. Discount rates applied in these calculations are based on current market interest rates for loans and receivables or borrowings with similar credit and maturity profiles;
- The fair value calculation of loans and receivables is made after making allowances for the fair value of impaired assets;
- Bank deposits, other assets, related party liabilities and other liabilities are short term in nature and the related carrying amount is equivalent to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

23. Undrawn lending commitments

The following credit facility limits are committed but not drawn down as at balance date:

| | Group | Group |
|-----------------------------|-------|-------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Undrawn lending commitments | - | - |

24. Commitments

| | Group | Group |
|------------------------------------|---------------|---------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Operating lease commitments | | |
| Due within 1 year | 4,066 | 3,633 |
| Due between 1 to 2 years | 3,433 | 2,815 |
| Due between 2 to 5 years | 5,212 | 4,249 |
| Beyond 5 years | 1,942 | 940 |
| | 14,653 | 11,637 |
| Capital commitments | | |
| Estimated capital expenditure | - | - |
| Total commitments | 14,653 | 11,637 |

The Group leases a number of office premises and equipment under operating leases. The leases typically run for a period of 1 to 9 years, with an option to renew the lease after that date. Lease payments are increased every 1, 2 or 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

During the year ended 31 March 2015 \$3.681m was recognised as an expense in profit and loss in respect of operating leases (2014: \$3.277m). Contingent rent recognised as an expense amounted to \$Nil (2014: \$Nil).

25. Contingencies

There are no contingent liabilities at 31 March 2015 (2014: \$Nil).

26. Subsequent events

There are no subsequent events.

Independent Auditor's Report

To the members of Farmers' Mutual Group

Report on the Financial Statements

We have audited the financial statements of Farmers' Mutual Group (the "Mutual") and its subsidiaries (the "Group") on pages 10 to 43, which comprise the balance sheet of Farmers' Mutual Group as at 31 March 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Mutual's members, as a body, in accordance with Section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the Mutual's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Mutual and the Mutual's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements, in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

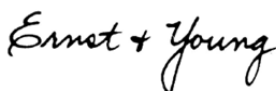
We provide taxation advice, remuneration advice and other assurance services to the Mutual and its subsidiaries. We have no other relationship with, or interest in, the Mutual or any of its subsidiaries.

Partners and employees of our firm may deal with the Mutual and Group on normal terms within the ordinary course of trading activities of the business of the Mutual and Group.

Opinion

In our opinion, the financial statements on pages 10 to 43:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ present fairly, in all material respects, the financial position of Farmers' Mutual Group as at 31 March 2015 and its financial performance and cash flows for the year then ended.



24 June 2015
Wellington

EMPLOYEE REMUNERATION

Employee Remuneration

Remuneration and other benefits of \$100,000 per annum or more received by employees in their capacity as employees were:

| | Group 2015 | Group 2014 |
|-------------------|---------------|---------------|
| 100,000 - 110,000 | 17 | 33 |
| 110,001 - 120,000 | 10 | 15 |
| 120,001 - 130,000 | 10 | 7 |
| 130,001 - 140,000 | 6 | 18 |
| 140,001 - 150,000 | 13 | 5 |
| 150,001 - 160,000 | 4 | 6 |
| 160,001 - 170,000 | 3 | 4 |
| 170,001 - 180,000 | 4 | 3 |
| 180,001 - 190,000 | 3 | 2 |
| 190,001 - 200,000 | 2 | 3 |
| 200,001 - 210,000 | 1 | 2 |
| 210,001 - 220,000 | 1 | 1 |
| 220,001 - 230,000 | 2 | 1 |
| 230,001 - 240,000 | - | 1 |
| 240,001 - 250,000 | 1 | - |
| 260,001 - 270,000 | 1 | - |
| 280,001 - 290,000 | - | - |
| 290,001 - 300,000 | - | - |
| 320,001 - 330,000 | - | 1 |
| 340,001 - 350,000 | 1 | 1 |
| 370,001 - 380,000 | 1 | 1 |
| 390,001 - 400,000 | 1 | - |
| 410,001 - 420,000 | - | - |
| 440,001 - 450,000 | - | - |
| 450,001 - 460,000 | 1 | 2 |
| 590,001 - 600,000 | 1 | - |
| 680,001 - 690,000 | - | - |
| 800,001 - 810,000 | - | 1 |
| 920,001 - 930,000 | 1 | - |

APPOINTED ACTUARY'S REVIEW OF ACTUARIAL INFORMATION FOR FARMERS' MUTUAL GROUP IN RESPECT OF FINANCIAL STATEMENTS AT 31 MARCH 2015

This report is prepared under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") for inclusion in the financial statements of Farmers' Mutual Group (FMG) and its subsidiary FMG Insurance Limited (FMGIL).

It reports on the review by the appointed actuary, required under section 77 of the Act, of actuarial information in, or used in the preparation of, the financial statements of a licensed insurer.

The report has been prepared by Margaret Cantwell (BSc, FIAA, FNZSA), Appointed Actuary to FMGIL. I am an employee of FMG and a policyholder of FMGIL. I have no other financial or ownership interest in FMG. I was also the Appointed Actuary to Farmers' Mutual Group until it was de-licensed, at the Mutual's request, on 23 March 2015.

It is FMG's established policy to seek the advice of the appointed actuary in respect of all actuarial information and to adopt that advice in its financial statements.

I was involved in the preparation of the liability valuation, liability adequacy test and related disclosures in the financial statements. I have reviewed the actuarial information contained in, or used to prepare, the financial statements 31 March 2015. There were no limitations placed on the scope of my review.

FMG has supplied me with all the information and explanations necessary to allow me to undertake this review.

These items have all been used without adjustment in the financial statements, which I believe to be appropriate.

They have also been used without adjustment in the solvency calculation, which again I believe to be appropriate.

In summary, I can confirm that from an actuarial perspective:

- The actuarial information contained in the 31 March 2015 financial statements has been appropriately included in those statements.
- The actuarial information used in the preparation of the 31 March 2015 financial statements has been used appropriately.
- That in my opinion, as at 31 March 2015, FMGIL is maintaining an appropriate solvency margin as defined in The Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank of New Zealand.



Margaret Cantwell
Appointed Actuary
FMG

24 June 2015

DIRECTORY

FMG comprising

Farmers' Mutual Group
FMG Insurance Limited

Head Office

Level 5
Grant Thornton House
215 Lambton Quay
PO Box 521
Wellington 6140

Bankers

The Bank of New Zealand

Legal advisors

DLA Phillips Fox, Wellington

Auditors

Ernst & Young, Wellington

Board of Directors

G W (Greg) Gent *Chairman*

M L (Marise) James

G R (Graeme) Milne

T D (Tony) Cleland

M J T (Michael) Ahie

C L (Cindy) Mitchener

D (Danny) Chan

Leadership team

Chris Black *Chief Executive*

David Kibblewhite *Chief Financial, Investment and Risk Officer*

Geoff Yeats *General Manager – Business Information Services*

Conrad Wilkshire *General Manager – Advice and Insurance*

Mike Lange *General Manager – Products and Services*

Andrea Brunner *General Manager – Marketing, Distribution and Human Resources*

We're easy to contact

Call us on
0800 366 466

Write to us at
**PO Box 1943
Palmerston North 4440**

Email us
contact@fmg.co.nz

Visit our website
www.fmg.co.nz

Visit our YouTube channel
**[www.youtube.com/
FMGInsurance](http://www.youtube.com/FMGInsurance)**

FMG
Advice & Insurance